

State of Utah

*Welcoming
the World...*

Comprehensive Annual Financial Report

For the
Fiscal Year Ended
June 30, 2001



STATE OF UTAH
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

CONSTITUTIONAL OFFICERS OF THE STATE OF UTAH

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Mark L. Shurtleff Attorney General
L. Alma "Al" Mansell President of the Senate
Martin R. Stephens Speaker of the House
Richard C. Howe Chief Justice, Supreme Court

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Raylene G. Ireland Executive Director, Dept. of Administrative Services
Kim S. Thorne, CPA Director, Division of Finance
Lynne N. Ward, CPA Director, Office of Planning and Budget
John E. Massey Legislative Fiscal Analyst
Wayne L. Welsh, CPA Legislative Auditor General
Michael E. Christensen Director, Legislative Research and General Counsel

ACKNOWLEDGMENTS

Report prepared by:
Division of Finance, Accounting Standards and Financial Reporting Section
John C. Reidhead, CPA
Eugene F. Baird
Lynn G. Bodrero, CPA
David N. Byg
Katherine G. Havell
Marcie Handy, CPA
Lynda B. McLane, CPA
Deborah S. Memmott
Ellen D. Morris
Dan D. Olsen, CPA
David H. Pierce, CPA
Allen H. Rollo

Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.



STATE OF UTAH
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FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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Michael O. Leavitt
Governor
Raylene G. Ireland
Executive Director
Kim S. Thorne, CPA
Director

State of Utah

Department of Administrative Services
Division of Finance

2110 State Office Building
Salt Lake City, Utah 84114
(801) 538-3020

November 13, 2001

To the Citizens, Governor,
and Members of the Legislature
of the State of Utah:

It is our pleasure to present the 2001 Comprehensive Annual Financial Report of the State of Utah in accordance with Section 63A-3-204 of the *Utah Code*. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State's management. To the best of our knowledge and belief, the enclosed data accurately presents the State's financial position and results of operations in all material respects. We believe that all disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section contains a list of principal officials, this transmittal letter, the state organization chart, and graphic presentations that provide an overview of state operations. The Financial Section contains the general purpose financial statements and footnotes; the individual, combining, and account group financial statements; and the State Auditor's report. The Statistical Section provides a history of selected financial and demographic information.

Federal regulations require the State to undergo an annual "Single Audit" in conformance with the Federal Single Audit Act of 1984, as amended, and the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Information relating to the Single Audit, including the schedule of expenditures of federal awards, audit findings, summary of prior audit findings and recommendations, and the State Auditor's report, is issued in a separate report and will be available at a later date.

This report includes all funds and account groups of the State of Utah. Within the funds are the various departments, agencies, and other organizational units governed by the Legislature and/or the constitutional officers of the State of Utah. In addition to general government activities, we have included component units and other entities which are financially accountable to the State, or for which the nature and significance of their relationship with the State are such that exclusion would cause this report to be misleading or incomplete. The criteria used to determine if a particular entity is financially accountable are: 1) a state official appoints a voting majority of the entity's governing body; and 2) the State has the ability to impose its will on that entity, or the entity has the potential to provide specific financial benefits to, or impose specific financial burdens on the State. The component units and other entities that are part of this report include, but are not limited to, the Utah Retirement Systems, Unemployment Compensation Trust Fund, Utah Housing Corporation, Alcoholic Beverage Control Commission, Board of Regents Student Assistance Programs, and State Colleges and Universities.

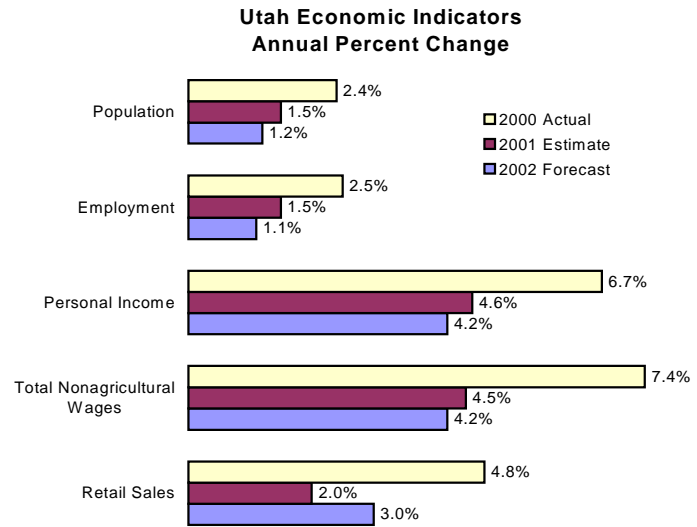
ECONOMIC OUTLOOK

For more than a decade Utah's economy has seen remarkable growth. Between 1988 and 2000, annual job growth averaged 4.1 percent, unemployment averaged 4 percent, and annual personal income growth averaged 7.2 percent. Utah's economy showed signs of slower growth in 2001, and current short-term projections anticipate a continued slowing state economy for the next two years. Through the end of 2003, job growth is expected to average 1.6 percent, unemployment is expected to average 4.7 percent, and personal income growth is expected to average 4.8 percent. However, when compared to estimates of national job growth of only 0.7 percent and national unemployment rates in excess of 5 percent over the next two years, Utah's overall outlook appears better than the nation as a whole.

Industry Outlook. The State's construction boom lasted nearly twelve years and contributed to much of the economy's expansion during the last decade. However, the number of construction jobs is expected to decline 3.5 percent in 2001 and over 11 percent in 2002 as Olympic-related construction tapers off and other large projects are completed. Some of the projects finished or nearing completion this year include I-15 reconstruction, East-West light rail in Salt Lake County, the Gateway Project in Salt Lake City, and ski resort expansions at Park City, Solitude, Snow Basin, and The Canyons. Residential construction, government road projects, and expansion in the energy sector could help ease declines in construction employment in the near future.

Service industries remain the largest source of new jobs in the State with an increase of 6,100 positions from September 2000 to September 2001, a modest 1.9 percent climb. Gains in accounting, engineering, legal, agricultural, and recreational services have offset declines in business and computer services. The finance, insurance, and real estate sector is Utah's fastest growing industry with an employment expansion of 2,300 jobs, a 4 percent increase over the prior year. In contrast, manufacturing companies continue to suffer losses as a result of the national economic slowdown, decreasing 1,900 jobs, or 1.4 percent in the past year.

Government employment in Utah has increased by 5,600 jobs since September 2000, an increase of 3 percent. Two-thirds of the federal government's 1,200 new positions were civilian jobs at defense installations, and over one-half of the increase of 4,400 jobs in state and local governments were education-related positions for new professors, teachers, and administrators.



Source: Council of Economic Advisors

Olympics. The 2002 Olympic Winter Games are expected to have a positive impact on Utah's economy. Analysts estimate that between 1996 and 2003 the Games will generate \$4.5 billion in economic output, \$1.5 billion in earnings to Utah workers, 35,000 job-years of employment, and a net increase of 50,000 visitors per day. In addition, analysts forecast net revenue gains of \$55.5 million to state government and \$20.4 million to local governments from increased sales taxes, income taxes, departmental collections, and federal funds as a direct result of the Olympics. These net gains take into account additional costs for public services that will be required during the Games.

Demographics. Utah's population growth rate of 29.6 percent from 1990 to 2000 was more than twice that of the U.S. average and was the fourth fastest growing state in the country, exceeded only by Nevada, Arizona, and Colorado. With a median age of 27.1, and with one-third of the population under the age of 18, Utah is still the "youngest" state in the country. The State's young and well-educated work force has gained national recognition, making Utah an attractive site for business expansion and relocation.

2000 Census Highlights

	Utah	National
	<u>Statistic</u>	<u>Rank</u>
Total Population, April 1, 2000	2,233,169	34th
Increase over 1990	29.6%	4th
Median age	27.1 yrs	1st
Average household size	3.13 persons	1st
Average family size	3.57 persons	1st
Percent of family households	76.3%	1st
Percent of married-couple families	63.2%	1st
Fastest growing county	Summit	8th
Fastest growing city	Draper	n/a

Source: U.S. Census Bureau

Utah's population is concentrated along a 100-mile stretch at the base of the Wasatch Mountains where 76 percent of the State's 2.3 million residents live in Salt Lake, Weber, Davis, and Utah counties. For 2001, total population growth will slow to 1.5 percent, compared to an average annual rate of 2.3 percent during the last 13 years. However, certain regions of the State will continue to expand quickly, and nine out of the ten fastest growing counties are not on the Wasatch Front. For example, population forecasts for the next decade estimate growth of 46 percent for Washington County, 40 percent for Wasatch County, and 32 percent for Wayne County.

Over the last 100 years, Utah's population has doubled about every 40 years, but the largest percent increase has occurred in the last ten years. Current projections show a population of 3 million in another 15 years, and the State could reach 5 million by the

year 2050. This growth has had a significant impact on the State's resources and life styles, and future growth will bring challenges that must be faced and managed. Pressures created by growth include higher housing prices, upward pressure on wages, and labor shortages. In addition, growth strains such as traffic congestion, air quality, and water development demand attention from state and local government leaders.

MAJOR INITIATIVES

Tax Cuts. In the last two years the Legislature has cut over \$50 million in taxes intended to provide tax relief for low-income residents and to stimulate economic growth. Tax cuts include the following:

Individual Income Taxes – The top individual income tax bracket increased from \$7,500 to \$8,626 and the bottom bracket increased from \$1,500 to \$1,726 for a taxpayer filing jointly or as head of household, and all other brackets were similarly adjusted. Also, low-income individuals whose federal adjusted gross income is less than the sum of their personal exemptions plus the standard deduction are now exempt from paying state income taxes. Finally, a taxpayer who adopts a child with a special need is eligible for a \$1,000 nonrefundable tax credit. These tax cuts are expected to reduce state income tax revenues by \$19 million per year.

Hospital Provider and Nursing Facility Taxes – Bed taxes for hospitals and nursing homes were repealed in 2000 and 2001, reducing state revenues by approximately \$10 million per year. Public health programs that were funded from these taxes received \$5.5 million from tobacco settlement funds and \$4.4 million from the General Fund to maintain current service levels.

Unemployment Taxes – Utah's low unemployment rate in the past several years resulted in a surplus in the Unemployment Trust Fund, making a tax cut possible. Utah employers will save approximately \$22.2 million over the next five years from the cuts.

Sales Tax Exemptions – Specific industries and groups will save approximately \$650 thousand over the next three years from sales tax exemptions designed to stimulate economic growth or encourage nonprofit-related activities.

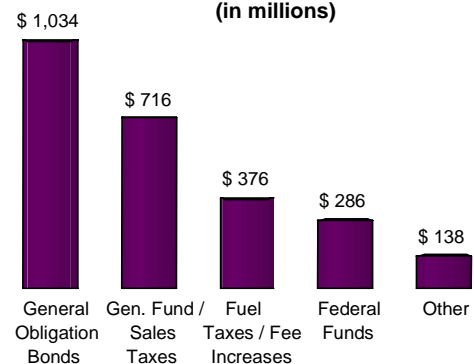
Education. The Governor and Legislature have linked the long-term success of Utah's economy to the success of the State's public and higher education systems. A new Engineering, Computer Science, and Technology Initiative seeks to double the number of engineering and computer science graduates at Utah's colleges and universities over the next five years and to triple them in eight years. Colleges received \$4 million for faculty incentives and technology upgrades to help achieve this aggressive goal. The public education system received \$9.9 million to train, attract, and retain highly qualified secondary teachers of mathematics, science, and computer science. Grants of up to \$20 thousand per teacher and scholarships for college students will be awarded competitively to persons who agree to teach these subjects in Utah secondary schools for at least four years.

The Governor and Legislature have also worked out a plan to restructure the State's applied technology education system by creating the Utah College of Applied Technology under the State Board of Regents and transferring funding for the college from the public and higher education systems. In addition to meeting its current goal of providing vocational and occupational training to adults and high school students, the new college will offer a competency-based associate of applied technology degree that will enhance students' job prospects upon graduation or allow them to pursue a four-year degree at a state college or university.

The Legislature recently collapsed over 20 specific public education programs into a few block grants to school districts to give local school boards and officials more flexibility to meet local needs and more responsibility for the results. School districts also received \$12.8 million for additional teacher professional development to improve the quality of teaching in our public schools. The State is expecting a substantial increase in the K-12 school age population beginning in 2004 and extending to at least 2015. Educating these children while maintaining a reasonable tax burden will be a major challenge for policy makers.

Transportation. The State's four-year \$1.6 billion I-15 reconstruction project was completed in July of 2001 on schedule and \$32 million under budget. The State now looks to other critical transportation needs. The first phase of the Legacy Parkway through Davis County began this summer and is expected to cost \$450 million over the next three years. Also, I-15 expansion in Utah County, a new I-15 interchange near Pleasant Grove, and I-80 expansion at Silver Creek Junction are all expected to be done within the next year. The Centennial Highway Fund was created to accumulate resources to fund these and 37 other highway projects. Funding comes from increased motor fuel taxes and vehicle registration fees, federal funds, sales tax revenues, and general obligation bonds. These Centennial Highway Fund projects are in addition to ongoing highway construction and maintenance in the Transportation Fund.

**Centennial Highway Fund
Funding Sources, FY 1998 - FY 2002
(in millions)**



Source: Governor's Office of Planning and Budget

Health and Human Services. The Children's Health Insurance Program (CHIP) pays for medical costs of children who are not eligible for Medicaid and cannot afford medical insurance. Services provided include routine physicals, immunizations, vision and hearing screening, dental services, hospital and lab services, and prescription drugs. Since its creation in 1998, CHIP has enrolled

over 25,000 children. The program received \$20.2 million from federal funds in fiscal year 2001 and expects to receive \$21.7 million in fiscal years 2002 and 2003. CHIP also receives \$5.5 million annually from tobacco settlement funds.

The Medicaid program has expanded its eligibility criteria to serve a larger number of people and to add new programs. Medicaid is now available to 18-year-olds whose family income is at or below the federal poverty level. Also, the Ticket to Work program allows approximately 300 disabled people to go to work and still keep their Medicaid benefits. In addition to the Medicaid program, the State offers a variety of public health services such as: the Primary Care Grant which pays for health care services for approximately 3,900 uninsured working poor adults; the Baby Watch Early Intervention program which enables infants and toddlers with disabilities and developmental delays to gain access to services that will help them get ready to attend school; and the Department of Health which uses \$4 million of tobacco settlement funds for programs aimed at prevention, education, reduction, and cessation of alcohol, tobacco, and other drug addictions.

The Department of Human Services received an additional \$6.3 million in 2001 to provide services to more people on the disabilities waiting list. With these funds, the Department was able to help an additional 385 disabled people with services such as assisted living, day treatment centers, in-home family assistance, and job coaching. The Department's 2002 budget includes another \$1.25 million for approximately 372 more people who still need similar services. Funding for these services has come from a combination of restricted funds, federal funds, and the General Fund.

Economic Development. The Legislature recently provided a one-time boost of \$6.9 million to the State's Industrial Assistance Fund to take advantage of opportunities to create new jobs at Utah companies. The fund provides loans to businesses seeking to expand in the State. Borrowers meeting certain job-creation targets do not need to repay their loans. The Governor and the Legislature also created a Utah Technology Alliance to entice high-tech firms to "grow out" in Utah and to provide matching grants for rural communities to build space for the relocation of high-tech firms. Combined with specialized training funds through the Custom Fit program and numerous industry-specific tax exemptions, the State's economic development incentives make Utah an attractive site for all types of business relocation and expansion.

Environment. The Governor and the Legislature recently provided funds and created laws aimed at keeping high-level nuclear waste out of Utah. The Department of Environmental Quality received \$1.1 million to create a nuclear waste opposition office to lead the legal battle against companies that want to store their radioactive waste in Utah. New state laws forbid the placement of high-level nuclear waste within the borders of the State and prohibit government entities and private companies from providing services or infrastructure that would facilitate the placement of this waste within the State.

FINANCIAL INFORMATION

Internal Control. The State's systems of internal control over assets recorded in the accounting system have been designed to provide reasonable, but not absolute, assurance of the safeguarding of assets against loss from unauthorized use or disposition and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Control. The State Constitution requires that budgeted expenditures cannot exceed estimated revenues and other sources of funding, including beginning fund balances. Annually, the Governor is required to submit a balanced budget to the Legislature. The Legislature authorizes expenditures in the annual state *Appropriations Acts*. The Acts also identify the sources of funding for budgeted expenditures. The budget is generally prepared on a basis consistent with generally accepted accounting principles, except accounting for certain intrafund activity. In the event actual revenues are insufficient to cover budgeted expenditures, the Governor must order budget reductions. Adjustments to the budget may also be made throughout the year for changes in departmental revenues or fund revenues so that departments and funds will not end the fiscal year in deficit positions.

During fiscal year 2001, supplemental appropriations of \$144.1 million were made for capital projects and \$70.1 million were made to enhance existing programs. The supplemental appropriations were possible because of increases in estimated unrestricted revenue and unreserved fund balances from the prior year. However, due to decreases in revenue estimates prior to yearend, the Governor reduced the budgetary allotments related to supplemental appropriations for capital projects by \$56.6 million to avoid ending the fiscal year with a deficit. The capital projects that were put on hold included four buildings on higher education campuses, one applied technology center building purchase, and \$5 million for state park renovations.

The latest revenue forecasts for fiscal year 2002 have also declined from previous estimates, forcing the delay of several more capital projects and a reduction of approximately 2 percent in state agencies' operating budgets, with the exception of the State's Minimum School Program (support for local school districts), effective July 2001. In October, a second round of budget cuts was announced which will require agencies to cut another 1 to 2 percent of their operating budgets. The Minimum School Program, Higher

Education, and Public Safety were not included in this second round of budget reductions. The State's \$120 million Budgetary Reserve Account (Rainy Day Fund) is available to cover operating deficits; however, use of the fund requires legislative approval.

The State has an appropriation limitation statute that limits the growth in state appropriations in two ways. First, as population, personal income, and inflation increase, appropriations are allowed to increase only at the same relative rate. Second, the state-mandated property tax rate, which funds a portion of public education at the local level, is capped at the level set July 1, 1989. The appropriations limitation can be exceeded only if a fiscal emergency is declared and approved by more than two-thirds of both houses of the Legislature, or if approved by a vote of the people. However, the appropriations limitation statute may be amended by a majority of both houses of the Legislature. Appropriations for construction of capital facilities and Centennial Highway projects, appropriations for debt service, and transfers to the Budgetary Reserve Account (Rainy Day Fund) are exempt from the appropriations limitation. Beginning in 2003, appropriations of unrestricted revenues to the Centennial Highway Fund will no longer be excluded from the appropriations limitation calculation.

For the fiscal year ended June 30, 2001, the State was \$105 million below the appropriations limitation. The State is currently below the fiscal year 2002 appropriations limitation by \$108 million.

General Governmental Functions. General governmental functions are accounted for in the General Fund, the Special Revenue Funds, the Capital Projects Funds, the Debt Service Funds, the General Long-Term Obligation Account Group, and the General Fixed Assets Account Group.

Revenues. Total revenue for general governmental functions totaled \$6.21 billion in fiscal year 2001, an increase of 3.7 percent over fiscal year 2000. This does not include bond proceeds, beginning fund balances, or other financing sources that are used to pay governmental fund expenditures. The amounts of revenue from various sources and the changes from last year are as follows:

General Governmental Revenues (Expressed in Thousands)				
Revenue Source	Fiscal Year	Percent of Total	Increase / (Decrease) From Fiscal Year 2000	
	2001 Amount		Amount	Percent
Sales Tax	\$ 1,465,301	23.6%	\$ 64,339	4.6%
Individual Income Tax.....	1,712,676	27.6	57,727	3.5
Corporate Income Tax	183,141	2.9	(3,795)	(2.0)
Motor and Special Fuel Tax	310,000	5.0	(4,164)	(1.3)
Licenses, Permits, and Fees	91,875	1.5	(425)	(0.5)
Investment Income.....	65,068	1.0	9,264	16.6
Federal Revenues.....	1,708,087	27.5	132,479	8.4
Other Taxes and Revenue	676,881	10.9	(36,618)	(5.1)
Total.....	<u>\$ 6,213,029</u>	<u>100.0%</u>	<u>\$ 218,807</u>	<u>3.7%</u>

The growth in sales tax was the result of healthy consumer spending. Through the end of calendar year 2000, retail sales in Utah were up 4.8 percent over the previous year. Analysts predict much slower growth of 2 percent for 2001 and 3 percent for 2002, but by 2003 retail sales are expected to be up 4.3 percent as the State begins to recover from this short-term lull.

Despite the current slowing economy, individual income tax revenues were still 3.5 percent above the prior year as the State reaped the residual effects of significant growth in income and wages during calendar year 2000. Personal income and nonagricultural wages increased 6.7 percent and 7.4 percent, respectively, mostly as a result of larger than normal capital gains. Corporate profits fell for a third year in a row, however, as Utah companies began to suffer the effects of the slowing national economy.

Higher gasoline prices, slower construction activity, and a decline in tourism in southern Utah combined to keep motor and special fuel tax collections essentially flat during 2001. The State also refunded nearly \$8.2 million to a large fuel distributor that had overpaid fuel taxes over a period of 15 months.

The increase in investment income is due to higher balances of unrestricted cash in the General Fund. For the year, the average pool rate was 5.98 percent, and at June 30, 2001, the weighted-average pool rate was 4.42 percent.

Several programs received more federal money this year than last. Due to increased expenditures, federal revenues for Medicaid increased approximately \$61.4 million, including \$7.7 million more for the Children's Health Insurance Program. Highway projects

brought an additional \$34.1 million, mostly to complete the I-15 reconstruction project. A renewed concern at the federal level over high energy costs resulted in \$9 million more for federal Low-Income Home Energy and Weatherization Assistance programs. Local school districts received \$11.6 million more for reading, drug-free, and special education programs, all of which came through the State's public education budget as pass-through funds. An additional \$7.1 million of federal funds was received for the Department of Environmental Quality's revolving loan programs for local government drinking water and wastewater projects. Finally, federal commodities for vaccines and food nutrition programs added \$4 million in new federal revenues.

The decrease in other taxes and revenue is actually due to an anomaly in the prior fiscal year when the State received a one-time inheritance tax windfall of approximately \$65 million. Inheritance tax revenues in 2001 were \$30 million, a decrease of \$35 million from 2000, but these tax collections were still well above the original budget expectation of only \$9 million. The remainder of the change from 2000 is a combination of smaller increases and decreases in various revenue sources, including higher mine occupation taxes and mineral lease royalties, lower insurance premium taxes, and lower intergovernmental revenues from colleges and universities for capital facilities.

Expenditures. Total expenditures and other uses for general governmental functions totaled \$6.23 billion, an increase of 4.2 percent over 2000. This does not include transfers made to other funds except General Fund appropriations transferred to the colleges and universities, which are included in the table below as higher education expenditures. State government expenditures by function and the changes from last year are as follows:

General Government Expenditures
(Expressed in Thousands)

Function	Fiscal Year 2001 Amount	Percent of Total	Increase / (Decrease) From Fiscal Year 2000	
			Amount	Percent
General Government	\$ 263,588	4.2%	\$ 2,459	0.9%
Education:				
Public	1,951,517	31.3	127,210	7.0
Higher	569,722	9.1	38,358	7.2
Human Services, Workforce Services, Health, Environmental Quality, and Corrections.....	1,900,173	30.5	113,104	6.3
Transportation and Public Safety	998,652	16.0	(5,632)	(0.6)
Natural Resources.....	104,859	1.7	7,273	7.5
Community and Economic Development	83,526	1.4	6,221	8.0
Business, Labor, and Agriculture	49,672	0.8	3,117	6.7
Debt Service	158,886	2.5	612	0.4
Capital Projects	153,126	2.5	(38,693)	(20.2)
Total	<u>\$6,233,721</u>	<u>100.0%</u>	<u>\$ 254,029</u>	4.2%

Expenditures for public and higher education are the largest use of state revenues. The increase of 7 percent for public education is mainly a result of the Legislature's \$86.9 million, or 5.5 percent, increase in the Weighted Pupil Unit (WPU) and a one-time boost of \$34.2 million to help local school districts replace worn-out and outdated textbooks and supplies. The WPU supports teacher salaries and other operation and maintenance costs of local school districts. Other increases stem from federal pass-through funds that went to schools for reading, drug-free, and special education programs. Most of the increase in higher education is due to a \$28.8 million, or 5 percent, compensation increase for faculty and staff designed to address salary inequities with peer institutions and the private sector. The State's colleges and universities also received approximately \$9.8 million for enrollment growth.

Increasing health care costs added \$85.9 million to Medicaid and Medical Assistance expenditures at the Department of Health. Drug cost increases of 16 percent, combined with increased utilization of services and reductions in the federal matching rate continue to require a larger portion of state funds for this program. The Children's Health Insurance Program also saw an increase of \$8 million in expenditures as the program's enrollment went up by over 6,000 children, or 32 percent. The Department of Human Services spent an additional \$4.1 million from the prior year to serve an additional 385 people who were waiting for special services from the Division of Services for People With Disabilities. The State Hospital's costs also increased by \$5.2 million as it opened the final wing of its new forensics building and hired over 100 employees to staff the facility. The Department of Environmental Quality spent \$4.4 million to clean up a contaminated residential site in Tooele County that was on the federal EPA's national priority list. Finally, Corrections costs increased \$8.1 million as it expanded its jail reimbursement and contracting programs and provided salary increases for employees and contract medical personnel.

The Department of Natural Resources spent \$3.6 million more purchasing permanent conservation easements on private property. This Legacy Program is designed to protect pristine land from future development and is funded entirely by the federal government. The department also spent \$1.5 million more fighting wildfires this year and nearly \$2 million more for capital construction and improvements at state parks, fish hatcheries, shooting ranges, and other facilities.

The Department of Community and Economic Development spent \$9 million more than last year for Low-Income Home Energy and Weatherization Assistance programs. Concerns over last winter's higher costs for heating fuel and potential energy shortages prompted Congress to boost most states' funding for these programs. These increases were offset by a \$2.7 million decrease in expenditures in the Sports Authority Special Revenue Fund. In prior years, this fund accounted for expenditures related to construction of Olympic facilities. With the completion and sale of those facilities to the Salt Lake Organizing Committee last year, the Authority's activities were focused on promoting Utah as a winter sports center and did not require major capital outlays.

Capital project expenditures were down this year due to slower construction activity on higher education campuses. For the last two years, the Legislature has scaled back the amount of bonds authorized for capital facilities. As a result, higher education institutions are seeking more donations and setting aside more institutional funds to meet their capital facility needs.

Fund Balances. Each fund of the State maintains an equity position that is either restricted by state law, restricted by contract, or is unreserved and available for future appropriation. The equity positions of the State's major governmental funds are as follows:

	General Fund	Major Special Revenue Funds		
		Uniform School Fund	Transportation Fund	Centennial Highway Fund
Fund Balance:				
Reserved and Designated	\$ 696,453	\$ 217,921	\$ 38,881	\$ 63,933
Unreserved Undesignated.....	11,614	824	56,421	—
Total Fund Balance	<u>\$ 708,067</u>	<u>\$ 218,745</u>	<u>\$ 95,302</u>	<u>\$ 63,933</u>

The reserved and designated fund balance in the General Fund includes \$120 million designated for the Budgetary Reserve Account.

Cash Management. Cash is controlled by the State Treasurer or by other administrative bodies as specified by law. Investments are made in compliance with the State Money Management Act (*Utah Code*, Section 51–7). All cash deposited with the State Treasurer by state entities is managed in pooled investment funds to safeguard assets and to maximize interest earnings. The Treasurer invests the cash, including the cash float, in short-term securities and other investments such as certificates of deposit, obligations of the U.S. Treasury, commercial paper, and repurchase agreements. Certain investment pools may invest in corporate bonds and equity securities.

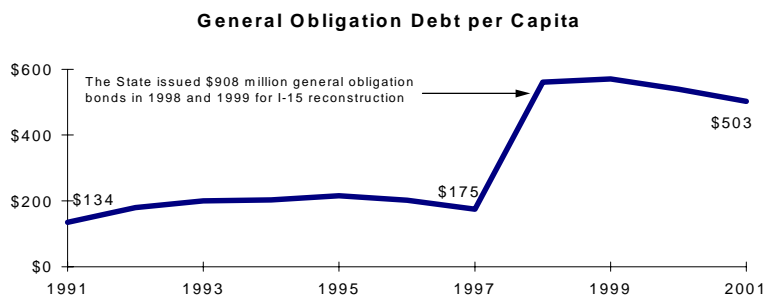
Deposits of \$4.1 million for the primary government and \$3.7 million for component units are insured by the Federal Deposit Insurance Corporation or by collateral held by the State's agent in the name of the State. The remaining deposits are uninsured and uncollateralized. The State does not require collateral on deposits. However, the State Commissioner of Financial Institutions monitors financial institutions monthly and establishes limits for deposits of public money for each institution. The State Treasurer's pool yields were between 3.8 percent and 7.3 percent at June 30, 2001. Variations in yield were usually due to the long or short-term nature of the pools and to changing interest rates nationally.

Risk Management. The State is self-insured against certain property and liability claims. The Legislature established the Risk Management Fund to pay for commercial insurance or to accumulate reserves for the self-insured portion of certain property and liability risks. Revenues are generated from premiums charged to state departments, institutions of higher education, and local school districts.

The property self-insurance limits for fiscal year 2001 were \$1 million per claim, with an annual aggregate of \$2.5 million per policy year. Generally, claims over the self-insured limits are covered by policies with private insurance companies.

Debt Administration. The Constitution limits outstanding state general obligation debt to 1.5 percent of the value of all taxable property in the State. State law also restricts outstanding state general obligation debt to no more than 20 percent of the appropriations limit. The Legislature has exempted \$908 million of general obligation highway bonds from the statutory debt limit. As of June 30, 2001, the State was \$522 million below the statutory debt limit and \$1.14 billion below the debt limit established in the Constitution.

The State continues to enjoy a triple “A” rating on general obligation bonds and a double “A” rating on revenue-type bonds from Moody’s Investors Service Inc., Standard & Poor’s Corporation, and Fitch IBCA Inc. These are the best ratings available and save the State millions of dollars in interest on general obligation and revenue-type bonds. During fiscal year 2001, the State issued \$15 million in general obligation bonds for construction and renovation of various capital facilities.



Compensated Absences and Postemployment Benefits. In fiscal year 1994 Utah became the first state to recognize and fund its liabilities for compensated absences and postemployment benefits. The funding for the liability came from the acceleration of tax revenue recognition as a result of implementing new accounting standards. Compensated absences and postemployment benefits are also funded with an accrual of the federal receivable for the federal share of the liability. Ongoing funding is charged to agency budgets as benefits are earned. As of June 30, 2001, the liability for compensated absences and postemployment benefits was \$199.7 million in the General Fund, \$21 million in the Uniform School Fund, and \$39.6 million in the Transportation Fund. The unfunded portion of the liability totaling \$41.2 million is reported in the General Long-Term Obligation Account Group.

Enterprise Funds. The Enterprise Funds are comprised of governmental and quasi-governmental agencies providing goods and services to the public on a charge-for-services basis. The Student Assistance Programs are a major part of the Enterprise Funds. These programs issue their own debt, and debt repayments are funded through loan service fees, interest earnings, and federal aid.

The Alcoholic Beverage Control Fund controls the sale of alcoholic beverages in the State, and the profits received from these sales are transferred to the General Fund. Net income from operations totaled \$30.8 million in fiscal year 2001, an increase of \$1.6 million, or 5.5 percent, from 2000. In addition, sales tax and school lunch tax collected on liquor sales were \$7.8 million and \$14.9 million, a combined increase of 5.6 percent from 2000.

Internal Service Funds. The Internal Service Funds provide services to state and local governments and are financed through user charges. Funds attempt to operate on a break-even basis. Rates are adjusted annually for over or under-recovery of costs. The State’s self-insurance program, Risk Management, operates as an Internal Service Fund. The Fund has sufficient current operating reserves and is funded for losses based on actuarial estimates.

Pension Trust Funds. Operations of the Utah Retirement Systems have continued with favorable results. The retirement systems and plans are actuarially sound, and the funding levels are managed to provide participants a financially sound retirement.

Future Changes in Accounting Standards. The Governmental Accounting Standards Board has issued new accounting and reporting standards that will be effective for fiscal year 2002. These new standards will impact the State’s revenue and expenditure recognition and change the way the State reports assets, liabilities, and fund equity. The new standards will also require reformatting of the financial statements and restating of beginning balances. The State will implement the new standards for fiscal year 2002.

INDEPENDENT AUDIT

In compliance with state statute, an annual financial audit of the “State Entity” is completed each year by the Utah State Auditor’s Office in conjunction with other audit firms. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Their report on the general purpose financial statements has been included in the Financial Section of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the State of Utah for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2000. This is the sixteenth year in a row the State has received this award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for only one year. We believe this report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA. We are committed to this effort, and we intend to maintain a highly qualified and professional staff to make this certification possible.

CONCLUSION

We hope this report provides data useful in evaluating the financial activity of the State of Utah. We express our appreciation to the budget and accounting officers throughout state government and to the State Auditor's Office for their dedicated efforts in assisting us in the preparation of this report.

Sincerely,

A handwritten signature in black ink, reading "Kim S. Thorne". The signature is written in a cursive, flowing style.

Kim S. Thorne, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of
Utah

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Thomas D. Brown
President

Jeffrey L. Esser
Executive Director

STATE OF UTAH

FINANCIAL HIGHLIGHTS

FUND EQUITY SUMMARY

GENERAL AND SPECIAL REVENUE FUNDS

June 30, 2001

(Expressed in Thousands)

	General Fund	Special Revenue Funds	Total
Fund Equity Reserved			
Nonlapsing Appropriations:			
Community and Economic Development	\$ 6,421	\$ —	\$ 6,421
Natural Resources – Parks and Recreation	14,524	—	14,524
Natural Resources – Except Parks	8,818	—	8,818
Legislature	3,254	—	3,254
Administrative Services	3,247	—	3,247
Public Safety	5,240	—	5,240
Environmental Quality	1,822	—	1,822
Governor's Office	9,762	—	9,762
Business, Labor, and Agriculture	8,583	—	8,583
Department of Corrections	2,311	—	2,311
Tax Commission	7,239	—	7,239
Department of Health	8,199	—	8,199
USF Minimum School Program	—	19,556	19,556
USF Office of Education	—	6,005	6,005
DOT Sidewalk Construction	—	1,490	1,490
Miscellaneous Other	8,106	3,480	11,586
Total Nonlapsing	87,526	30,531	118,057
Restricted Fund Balances:			
Water Pollution Loans	187,626	—	187,626
Safe Drinking Water Loans	56,493	—	56,493
Housing Development Loans	46,210	—	46,210
Tobacco Settlement Funds	13,609	—	13,609
Tax Commission – Administration	7,957	—	7,957
Oil Overcharge Account	9,882	—	9,882
Industrial Assistance	18,195	—	18,195
Medicaid Restricted	5,770	—	5,770
Workforce Services Special Administration	8,308	—	8,308
Public Safety Accounts	5,169	—	5,169
Wildlife Resources Restricted	10,355	—	10,355
Natural Resources – Except Wildlife	5,774	—	5,774
USF School Building Loans	—	10,328	10,328
USF Applied Technology Centers	—	4,059	4,059
USF School Land Interest	—	4,006	4,006
DOT Corridor Preservation	—	15,696	15,696
DOT Aeronautics	—	6,105	6,105
Centennial Highway Fund	—	63,933	63,933
Advances to Internal Service Funds	24,322	—	24,322
Miscellaneous Other	21,766	6,536	28,302
Total Restricted Funds	421,436	110,663	532,099
Total Fund Equity Reserved	508,962	141,194	650,156
Unreserved Designated			
Rainy Day Reserve Account	120,330	—	120,330
Net Accrued Taxes	—	146,811	146,811
For Fiscal Year 2002 Appropriations	67,161	33,679	100,840
Unreserved Undesignated	11,614	86,862	98,476
Total Fund Equity	\$ 708,067	\$ 408,546	\$ 1,116,613

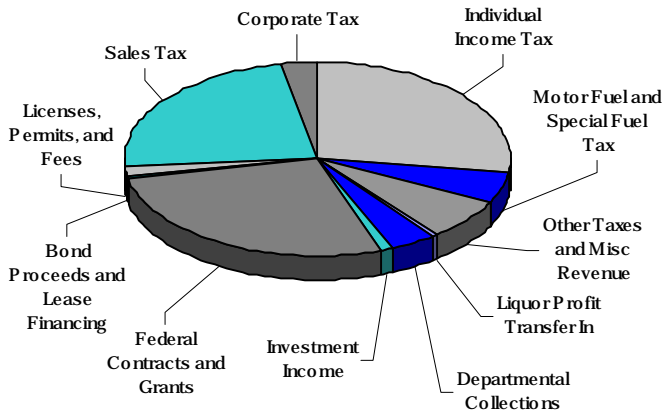
STATE OF UTAH

FINANCIAL HIGHLIGHTS

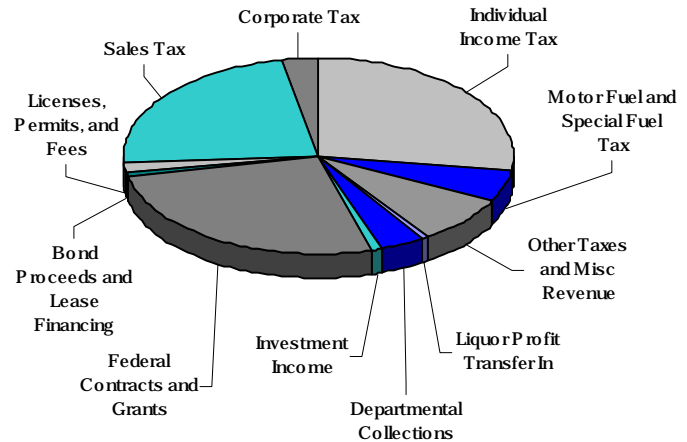
REVENUES AND OTHER SOURCES

GOVERNMENTAL FUND TYPES ONLY

(Expressed in Thousands)



June 30, 2001



June 30, 2000

Revenues and Other Sources

Revenues and Other Sources	Fiscal Year Ended June 30			
	2001		2000	
	Amount	Percent of Total	Amount	Percent of Total
Sales Tax	\$ 1,465,301	23.4%	\$ 1,400,962	23.1%
Federal Contracts and Grants	1,708,087	27.3	1,575,608	26.0
Individual Income Tax	1,712,676	27.3	1,654,949	27.2
Other Taxes and Miscellaneous Revenue	439,895	7.0	495,878	8.2
Motor and Special Fuel Tax	310,000	5.0	314,164	5.2
Departmental Collections	236,986	3.8	217,621	3.6
Corporate Tax	183,141	2.9	186,936	3.1
Investment Income	65,068	1.0	55,804	0.9
Licenses, Permits, and Fees	91,875	1.5	92,300	1.5
Total Revenues	6,213,029	99.2	5,994,222	98.8
Other Sources (A):				
Liquor Profit Transfer In	30,253	0.5	28,659	0.5
Bond Proceeds and Lease Financing	18,443	0.3	45,165	0.7
Total Revenues and Other Sources	<u>\$ 6,261,725</u>	<u>100.0%</u>	<u>\$ 6,068,046</u>	<u>100.0%</u>

(A) Note: This does not include various Trust Fund and Internal Service Fund revenues which are reflected in the General Fund and Special Revenue Funds as transfers in.

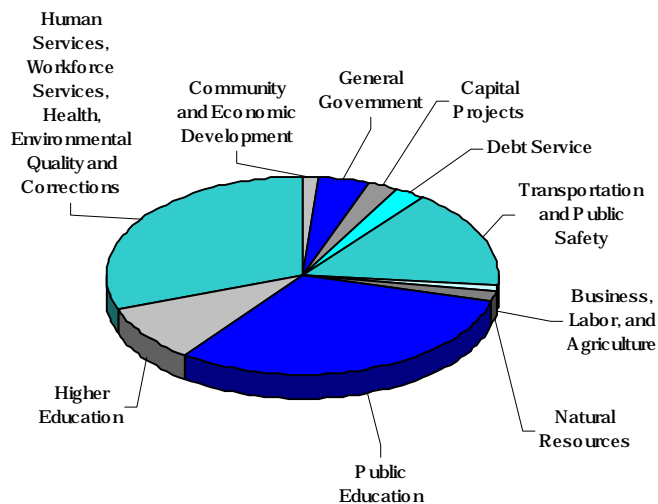
STATE OF UTAH

FINANCIAL HIGHLIGHTS

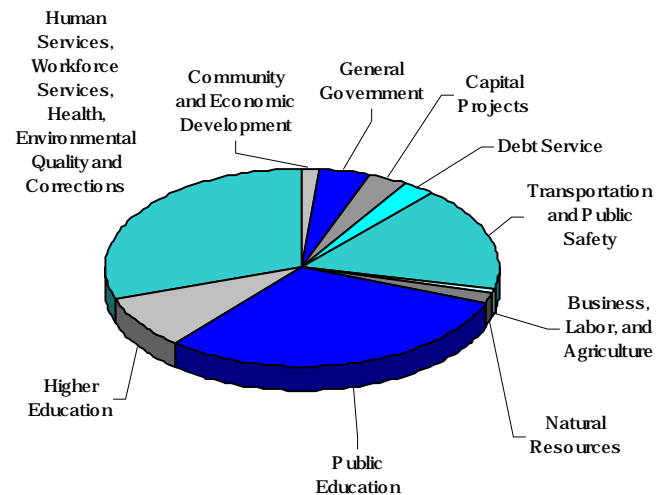
EXPENDITURES BY FUNCTION

GOVERNMENTAL FUND TYPES ONLY

(Expressed in Thousands)



June 30, 2001



June 30, 2000

Expenditures by Function

Expenditures by Function	Fiscal Year Ended June 30			
	2001		2000	
	Amount	Percent of Total	Amount	Percent of Total
Education:				
Public.....	\$ 1,951,517	31.3%	\$ 1,824,307	30.5
Higher.....	569,722	9.1	531,364	8.9
Human Services, Workforce Services, Health, Environmental Quality, and Corrections	1,900,173	30.5	1,787,069	29.9
Transportation and Public Safety	998,652	16.0	1,004,284	16.8
General Government.....	263,588	4.2	261,129	4.4
Debt Service	158,886	2.5	158,274	2.6
Capital Projects	153,126	2.5	191,819	3.2
Natural Resources.....	104,859	1.7	97,586	1.6
Community and Economic Development.....	83,526	1.4	77,305	1.3
Business, Labor, and Agriculture	49,672	0.8	46,555	0.8
Total Expenditures (A)	<u>\$ 6,233,721</u>	<u>100.0%</u>	<u>\$ 5,979,692</u>	<u>100.0%</u>

(A) Note: This does not include transfers made to other funds, except General Fund appropriations transferred to the colleges and universities which are included as higher education expenditures.

STATE OF UTAH

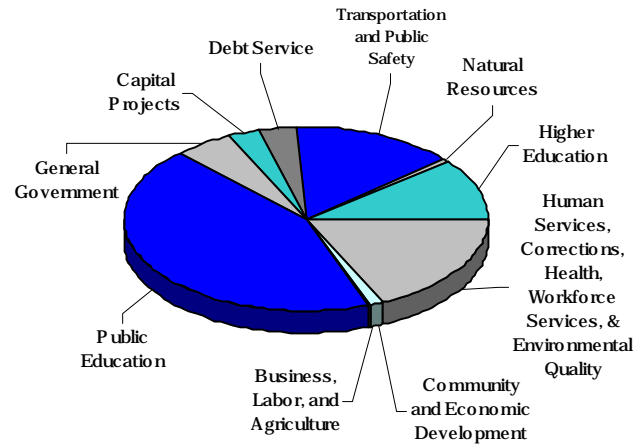
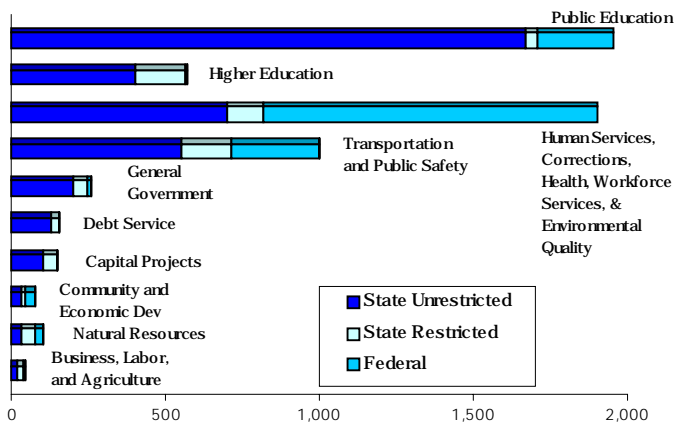
FINANCIAL HIGHLIGHTS

EXPENDITURES BY SOURCE

GOVERNMENTAL FUND TYPES ONLY

For the Fiscal Year Ended June 30, 2001

(Expressed in Thousands)



Expenditures of Unrestricted State Tax Sources

Expenditures by Source 2001

	Federal Sources	Percent of Total	Unrestricted State Tax Sources	Percent of Total	Restricted Fees and Other Sources	Percent of Total	Total Expenditures All Sources	Percent of Total
Education:								
Public	\$ 246,925	14.6%	\$ 1,669,677	43.2%	\$ 34,915	5.2%	\$ 1,951,517	31.3%
Higher	598	0.0	404,393	10.4	164,731	24.4	569,722	9.1
Human Services, Workforce Services, Health, Environmental Quality, and Corrections	1,081,828	64.0	702,162	18.2	116,183	17.2	1,900,173	30.5
Transportation and Public Safety	283,676	16.8	555,471	14.4	159,505	23.7	998,652	16.0
General Government	16,914	1.0	205,530	5.3	41,144	6.1	263,588	4.2
Debt Service	—	0.0	135,165	3.5	23,721	3.5	158,886	2.5
Capital Projects	—	0.0	104,602	2.7	48,524	7.2	153,126	2.5
Community and Economic Development	34,984	2.1	34,070	0.9	14,472	2.2	83,526	1.4
Natural Resources	22,383	1.3	36,190	0.9	46,286	6.9	104,859	1.7
Business, Labor, and Agriculture	4,348	0.2	20,848	0.5	24,476	3.6	49,672	0.8
Total	1,691,656	100.0%	\$ 3,868,108	100.0%	\$ 673,957	100.0%	\$ 6,233,721	100.0%
Other Federal Revenue for Loans and Nonexpended Programs	16,431							
Total Federal Revenue	\$ 1,708,087							

STATE OF UTAH

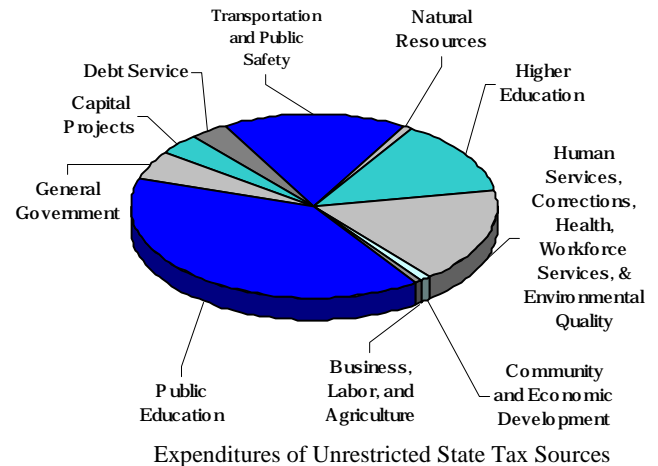
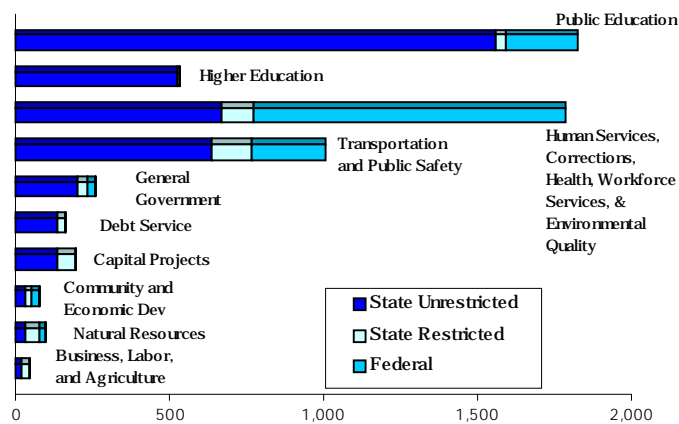
FINANCIAL HIGHLIGHTS

EXPENDITURES BY SOURCE

GOVERNMENTAL FUND TYPES ONLY

For the Fiscal Year Ended June 30, 2000

(Expressed in Thousands)



Expenditures by Source 2000

	Federal Sources	Percent of Total	Unrestricted State Tax Sources	Percent of Total	Restricted Fees and Other Sources	Percent of Total	Total Expenditures All Sources	Percent of Total
Education:								
Public.....	\$ 235,065	15.0%	\$ 1,558,059	39.4%	\$ 31,183	6.8%	\$ 1,824,307	30.5%
Higher.....	462	0.0	528,380	13.4	2,522	0.5	531,364	8.9
Human Services, Workforce Services, Health, Environmental Quality, and Corrections.....	1,015,199	64.7	668,148	16.9	103,722	22.6	1,787,069	29.9
Transportation and Public Safety.....	241,448	15.4	636,648	16.1	126,188	27.5	1,004,284	16.8
General Government.....	27,625	1.7	201,356	5.1	32,148	7.0	261,129	4.4
Debt Service	—	0.0	134,660	3.4	23,614	5.2	158,274	2.6
Capital Projects	—	0.0	138,267	3.5	53,552	11.7	191,819	3.2
Community and Economic Development.....	26,508	1.7	33,854	0.9	16,943	3.7	77,305	1.3
Natural Resources.....	19,014	1.2	32,788	0.8	45,784	10.0	97,586	1.6
Business, Labor, and Agriculture.....	4,121	0.3	19,713	0.5	22,721	5.0	46,555	0.8
Total	1,569,442	100.0%	\$ 3,951,873	100.0%	\$ 458,377	100.0%	\$ 5,979,692	100.0%
Other Federal Revenue for Loans and Nonexpended Programs.....	6,166							
Total Federal Revenue.....	\$ 1,575,608							

State of Utah Organization Chart

